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THE ECONOMIC CONDITION OF RUSSIA.

THE Bureau of Statistics of the Department of Commerce has issued a most timely publication¹ on the present economic condition of Russia. It is probably not too much to say that most of what has heretofore been written on that subject in the English language is worse than worthless. Gentlemen very successful in various walks of life where scholarship is not a prerequisite for eligibility, as a rule ignorant of any language but their own, and too busy to familiarize themselves with whatever literature there is on the subject in English, undertake to write on the economic, political, social, religious, and intellectual life of a nation with a territory twice as large as that of the United States, with a population of some one hundred and forty millions, composed of more than a hundred national and racial groups, speaking as many languages, and having, in many cases, a long historical career preceding their incorporation in the colossal empire.

It is therefore very gratifying that at this moment, when public interest in Russia has been stimulated by the war, the Bureau of Statistics has found among its specialists one able to draw for information upon original sources. The author of the volume in hand, Mr. Morris Jacobson, has given in his monograph a much broader view of the economic condition of Russia than the conventional title *Commercial Russia* suggests. The principal subjects treated are: industrial development; state finances and public credit; public debt; currency; railways; agriculture; the depression of 1900; domestic industries; coal; iron and steel; mineral oils; the textile industries; sugar; foreign commerce and trade with the United States; Siberia; and commercial effects of the Siberian railway. The appendix contains detailed statistical tables, the most important of which relate to the following subjects: population, according to the census of 1897, by geographical and administrative divisions; the movement of population at each of the eleven censuses beginning with that of 1722; the population of cities with more than 50,000 inhabitants; the number of schools, teachers, and pupils; the imperial budgets for 1893-1904; area and ownership of land, and area under cultivation; production, exports, and consumption of

¹ *Commercial Russia in 1904*. Washington: Department of Commerce and Labor, Bureau of Statistics, 1904..

the principal cereals for 1885-1902; statistics of railways from 1838 to 1903; statistics of principal Russian industries, showing number of factories, value of product, and number of workmen employed; production, imports, and exports of minerals; foreign commerce of Russia by countries and by principal articles, for 1890-1901.

It is a characteristic phenomenon of the modern stage of industrial development that the Russian government, which has for half a century waged the most relentless war against socialistic theories, has itself carried into practice the most far-reaching scheme of state socialism.

Never perhaps in the history of mankind has government activity in the purely industrial field been larger and more extensive than during the most recent period of Russian history. The Russian government, through the Central State Bank, controls the financial situation in the country; it owns and operates two-thirds of its entire railway system and seven-eighths of all the telegraphs. Practically one-third of all the land and two-thirds of the forests are still under its immediate control. It owns and operates most valuable mines, and manufactures in its own works the mineral products extracted from these mines. It dispenses practically all the liquor consumed by over 120 millions of people, and buys all the alcohol required for national consumption. The Russian state, it has been truly stated, "is the greatest landowner, the greatest capitalist, the greatest constructor of railways, and carries on the largest business in the world." (P. 2755.)

The term "state socialism" has of late been the subject of acrimonious controversy. The expression "state capitalism," coined by the late Wilhelm Liebknecht, has been generally accepted as a substitute by those with whom "socialism" is a word of praise and "state" a word of vituperation. On the other hand, the late Professor Gradovsky, of the University of St. Petersburg, says in his *Public Law of the Nations of Western Europe* that "the fact that the ticket office of a Prussian railway is in charge of a government official instead of an employee of a private corporation is not socialism yet." The semi-official financial publication, from which the above quotation was made by Mr. Jacobson, speaks of the Russian government as a "capitalist," which is consistent with the legal definition of "socialism," as a "subversive doctrine tending toward the establishment of anarchy."² If, however, we take "socialism" as a phase of modern economic evolution, the industrial operations

² Censorship and Press Act, Sec. 95.

of the Russian government demonstrate that "socialism" is compatible with every form of the state, from an absolute bureaucracy with a monarch who "reigns, but does not govern," to an absolute democracy with the initiative and referendum.

It must be borne in mind that this vast extension of government activity in the industrial field is in a large degree the legacy of past Russian history. During the Muscovite period nearly all lands were owned by the crown; the land tenure of the nobility, as well as that of the peasantry, was conditioned upon personal service to the state: the free estates (*patrimonies*) were few. The evolution of land tenure during the century preceding the emancipation of the serfs (1861), and since, has been in the opposite direction—towards private property in land. Government ownership of mines and factories dates back from the time of Peter the Great, who founded them for the needs of the state and assigned government serfs to them. The government monopoly of the liquor traffic, though a recent reform, undertaken under the influence of modern financial views, is none the less a revival of the old Muscovite system. But the government control of the three typical products of modern capitalism—the paper currency, the railway, and the telegraph—is, of course, essentially modern. The issue of paper currency has from the very beginning been a government function: private banks of issue have never been authorized in Russia. The telegraph has never been in private hands, except the wires operated by railways primarily for their own use. The Russian railways, with the exception of two lines built under Nicholas I. to connect St. Petersburg with the summer residence of the Czar and with the ancient capital (Moscow), were originally constructed by private capital, though largely with a government guaranty. Under the terms of the franchises the government reserved to itself the right of supervision and the regulation of rates. Under Alexander III. the principle of government ownership and operation was adopted in the construction of new roads, and the government undertook the redemption on a large scale of existing private roads. Mr. Jacobson tells us that

At the beginning of 1902 the total length of all Russian railways (exclusive of railways in Finland) was 35,187 miles. . . . Of this total . . . 23,557 miles, or over 67 per cent., were owned and operated by the government. (Pp. 2761-62.)

To treat the subject of the results of the government operation of railways in Russia adequately would require a special monograph.

The author brings out the fact that the net average earnings per mile of the American railways are over 40 per cent. higher than those of the Russian railways in Europe, while the Siberian railway is conducted at a loss (pp. 2762-63). The economic conditions of the two countries, however, are so unlike that such a comparison throws little light on the subject of government operation. The fact is that the total value of railway securities issued without government guaranty is less than 5 per cent. of the entire outlay for the construction of railways, and the payment of guaranteed dividends on railway stocks was a regular item of the budget even before the nationalization of the railways. On the other hand, passenger rates are incomparably cheaper in Russia than in the United States.

The volume of the government's industrial operations is shown by this table of revenues for the year 1902:

	Thousands of Rubles
Sale of spirits - - - - -	484,558
Government railways - - - - -	407,912
Forests and crown lands - - - - -	83,384
Telegraphs - - - - -	20,445
Banking - - - - -	17,387
Mines and manufactures - - - - -	16,301
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Total - - - - -	1,029,987

Thus, over \$500,000,000 was realized by the Russian government from enterprises which in this country are regarded as not within the proper sphere of government activity; and this obviously does not include the revenue from post-offices, which amounted to 34,431,000 rubles, nor the seigniorage from coinage, amounting to 3,650,000 rubles. The total volume of business carried on under government direction in one year aggregated \$549,521,000. The volume of business done by all constituent companies of the United States Steel Corporation, including sales between the companies, aggregated for the same year \$560,510,000.³ Allowing for the duplications in the accounts of the corporation, it is apparent that the Russian government is an industrial concern of greater magnitude than the largest industrial combination in the world.

There is in Russia one important industry conducted as a private monopoly under government supervision, viz., the manufacture of sugar. The Russian sugar manufacturers are organized into a sort

³ *First Annual Report of the United States Steel Corporation* (for the fiscal year ending December 31, 1902), p. 9.

of a pool, with the ministry of finance as the central administrative organ of the combination. The ministry of finance regulates the quantity of sugar each manufacturer is permitted to sell in the home market, the quantity which must be kept in stock at the works, and the maximum selling price of sugar in the home market; the price is much higher than in other European markets. The saccharine richness of the Russian beet compares favorably with that of other European material. The Russian sugar factories use modern methods of extraction, and as a rule are plants of large dimensions. On the other hand, wages both in the sugar-beet fields and the mills are incomparably lower than the prevailing rates in any other European country. This combination of conditions renders the Russian sugar industry very profitable, and the government takes to itself, in the form of excise duties, the lion's share of the profits. The excise for the fiscal year 1901-2 was as high as 39 per cent. of the maximum selling price and brought a revenue of \$41,664,000. Considering the organization of the combination in its entirety, the manufacture of sugar may properly be regarded as a quasi-public industry conducted for the government by private capitalists. The maximum wholesale price for the fiscal year last reported was 4.50 rubles per pood, which is equivalent to 6.4 cents per pound avoirdupois. This is higher than the American price, and to the majority of the Russian people it is prohibitive, but it enables the sugar producers to ship large quantities to foreign markets at low prices. The regulations put no restrictions upon production for export or competition in foreign markets; on the contrary, exports have been encouraged by direct and indirect bounties.

The official *Viestnik Finansov* (No. 22, 1903), commenting upon the late act of 1895, remarks that "the latter act compelled the manufacturers to export their surpluses irrespective of the state of the market. Each pood of exported sugar, according to expert opinion of the specialists in the ministry, caused a loss even to the best-situated factories of 40 kopecks per pood, while the average losses may be said to have been as high as 80 to 105 kopecks per pood. As, on the whole, the industry in question during the period has been in a fairly prosperous condition, it would be reasonable to suppose that these losses were made good by the Russian consumer in the shape of higher prices. (Pp. 2779-80.)

The Russian state as a consumer likewise exerts a potent influence upon the industries of the country. The government expenditures for the year 1903 were estimated at 2,071,667,000 rubles, i. e.,

\$1,066,000,000. The principal items of the budget were as follows:

	1893 (1 = 1,000 Rubles)	1903
Army	272,439	329,924
Navy	54,842	116,231
Merchant marine and port service	451,683
Operation of government railways	53,349	314,930
Building of new railways and feeding lines, increase of rolling stock and improvements	54,873	178,804
Sale of spirits	172,968
Government studs	1,305	2,970
Total	436,898	1,566,610

The appropriations for the army and navy, with the exception of salaries, are expended for supplies; all the other expenditures enumerated above were for industrial purposes; thus about 75 per cent. of the budget for 1903 represented government orders and purchases. Within the ten years last past the government nearly quadrupled its demand for goods. The following statements show beyond the possibility of doubt that a strong impetus was thereby given to certain industries:

The building of new railways caused new and increased demand for rails, rolling material, structural iron, bridges, telegraphs, cars, cement, coal, and numerous other articles, for the manufacture of which large and modern works were established. The expectations of securing large and profitable government orders became the main stimulus of industrial expansion. New factories went up by the scores and hundreds in the central Moscow-Vladimir region, in the Donetz region, where abundant deposits of coal and iron are found, in the larger port towns, easily accessible to English coal and foreign enterprise and skill, and in Poland, where German and Jewish capital and local and Silesian coal were near at hand. Between the years 1894 and 1899 827 stock companies, with a nominal capital of 1,420 million rubles, were chartered. The output of industrial establishments within the decade 1887-97, according to the figures of the finance department, more than doubled, the number of workmen employed rose from less than one and one-half millions to over two millions, while the number of workers engaged in mining and in the iron industry rose from about 391,000 to over 544,000 during the same period. . . . The output of coal for the entire empire rose from less than six million metric tons in 1890 to over sixteen million in 1900; the production of pig iron increased from 902,000 metric tons in 1890 to 2,906,000 metric tons in 1900, while the number of coal miners alone more than doubled between the years 1890 and 1899. . . .

The intimate connection between the industrial growth, just characterized, and the railway-building undertaken by the government becomes even more apparent when the amounts expended by the latter for this purpose during this time are borne in mind. During the years 1894-99 more than 1,200 million rubles were expended in railway-building and the purchase of rolling material, and by far the larger part of this huge outlay was in the shape of orders to domestic concerns. This dependence of the young industries upon governmental favors is one of the distinctive features of modern Russian development. When, during the most recent years, owing to the financial stringency in the European money markets and the unexpected demands upon the treasury by reason of the troubles in the far East, greater economy of government outlays, however productive, became necessary, resulting in smaller orders at lower prices or the entire suspension of these orders, the effects in a good many cases were fatal. The change from good to bad times was naturally felt most painfully by those concerns which, during the period of over speculation, were badly financed, starting with insufficient working capital and a heavy bonded indebtedness. This is especially true of those enterprises which were launched by means of foreign capital. It is calculated officially that by the end of 1899 there had been chartered 146 foreign stock companies with a nominal capital of 765 million rubles. Of this total, French and Belgian capital nominally furnished one-third each, while the rest represented British and German investments. How much of this total was Russian capital, working under the guise of foreign firms, is unknown. Many of these enterprises, while yielding enormous profit to their promoters, were financially unsound and dependent for their very existence upon government or corporate orders at high prices. For the fact should not be overlooked that during all this period the condition of the great agricultural masses, owing chiefly to continuous bad harvests, was far from improving, the government being even compelled to set aside for some years large amounts to feed the starving peasantry, to advance to this class the means wherewith to buy seeds and to replenish their animal stock. It is safe to assume that the rate of growth of popular consumption, as distinct from consumption caused by the extension of government activities during the decade under consideration, was far below the rate of growth of production of the large industries. At the end of 1899 the signs of an approaching industrial crisis became unmistakable. Notwithstanding the increase of the circulating medium and the generous financial assistance accorded by the government to the private banks and industrial concerns, a money stringency set in which could not be remedied by existing credit facilities. During the following year the depression became more general. . . . The collapse of banking institutions which had financed many of these new industrial concerns, especially in the south, made the crisis acute. . . . Industrial progress . . . received a sudden check. (Pp. 2772-73.)

The industries of the country had not recovered from the effects

of the crisis when the present war broke out, bringing in its train a new industrial depression, and time will be required before the business of the country can resume its normal course.

Another powerful factor in the development of Russian industry has been the high protective tariff, which has attracted domestic and foreign capital into Russian manufactures. The most important Russian industry is the manufacture of textiles, which furnished, according to the latest statistics available, more than one-third of the total value of manufactured products. The cotton industry is the most important of this class of manufactures, the value of its products for 1897 being 430,000,000 rubles. Practically the entire product of the cotton-manufacturing industry found a market at home; the value of all the exports of cotton goods for 1901 was only 17,119,372 rubles. On the other hand, the imports of manufactured cotton goods for the year 1897 were valued only at 4,756,000 rubles.

The development of manufactures in Russia can be best gauged by the relative value of domestic and imported products. The entire industrial output of the country in 1897 was worth 2,590,964,000 rubles, whereas the imports of manufactured goods for the same year were worth only 151,231,000 rubles. Deducting from the domestic output the exports of manufactured goods, viz., 19,026,000 rubles, and half-manufactured articles, viz., 291,622,000 rubles,⁴ we obtain the domestic consumption of home-made goods, equal to 2,280,316,000 rubles, as against 151,231,000 rubles representing the consumption of foreign manufactures. In other words, 94 per cent. of the domestic demand is supplied by domestic manufactures. Russia is no longer a producer of crude material only and an importer of manufactured goods. On the contrary, the imports of raw and half-manufactured products from 1890 to 1902 exceeded in value one-half of all imports.

It is safe to say that Russian manufacturing industries do not depend upon foreign markets. The principal manufactured articles exported in 1901 were the following:

	Value (r = 1,000 Rubles)
Oil products	- - - - - 69,705
Cotton manufactures	- - - - - 17,119
Sugar	- - - - - 16,750
Leather (including raw hides)	- - - - - 6,811
 Total	 110,385

⁴ This amount includes also raw products whose value is not segregated.

That the principal articles of Russia's export trade are products of farming and forestry is shown by these figures for 1901:

Articles	Value (1=1,000 Rubles)
Breadstuffs, including flour - - - - -	345,032
Flax and hemp - - - - -	59,753
Seeds - - - - -	10,025
Eggs - - - - -	35,392
Butter - - - - -	25,434
Animals - - - - -	21,558
Raw wool and bristles - - - - -	11,047
Lumber - - - - -	57,274
 Total - - - - -	 565,515

A comparison of the exports of manufactured and agricultural products shows that the latter exceed five times the value of the former. The exports to Asia amounted in 1901 to \$22,384,000 out of a total of \$392,215,000; practically all exports were to European countries. These facts clearly show that Russian expansion in the far East is not commercial in character. Russia has little to sell abroad except farm products, and her market is in western Europe. Her exports to Asia are a negligible quantity compared with the vastness of her home market for manufactured products.

I. A. HOURWICH.

WASHINGTON, D. C.